

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, JUNE 20, 2006**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, June 20, 2006, commencing at 7:01 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Hansen, Johnson, Mounce, and Mayor Hitchcock

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and Interim City Clerk Perrin

B. TOPIC(S)

B-1 Background information regarding PCE/TCE water rate increase (PW)

Deputy City Manager Krueger reported that Council had requested a report on the impacts if the water rates for PCE/TCE were rescinded. Staff reviewed the City's assumptions from a year ago related to the decision to implement a \$3.50 per month rate increase over three phases. The bottom line was the City could not handle an impact of this magnitude for remediation costs within the water fund.

With the aid of a PowerPoint presentation (filed), Public Works Director Prima reported that one of the fundamental assumptions from last year was that the net cost for the PCE/TCE remediation was \$45 million, which included capital costs, long-term operating costs, legal expenses, settlements, and City costs on settlements. Additionally, \$12.2 million in prior expenses are in a negative sub-fund within the water fund, which represents revenues collected from water rates that should have been spent on capital improvements and will be paid back.

The reason for the settlement negotiations and lawsuits was to get responsible parties to pay; however, the anticipated amount was inadequate, and the issue became whether the City could pay from existing funds and if it could be done internally without a rate increase. Staff analyzed whether it should come from the water or sewer fund, or a combination of both, and the consultants recommended using the water fund. The various mechanisms to accomplish this were then analyzed, which included: 1) pay as you go, 2) a modified pay as you go, or 3) borrowing money. The dollar amount represents 7% of the general fund. The pay as you go alternative adjusts the rates every year based on what was spent in the prior year. This option required a reserve, which the City did not have, and would have required a rate increase up front with an adjustment every year. This would have resulted in a \$40 or higher rate increase for a period of time, and the Council was opposed to that. The modified pay as you go method smoothed out the costs over time and relied on inter-fund borrowing within the water fund, which meant that the rate increase would eventually decrease as the costs were finalized. The consultants recommended that the City not borrow money as it would add interest costs.

The City opted for the modified pay as you go alternative, which used the cash received up front from settlements that would repay the accrued expenses over a delayed period of time. The negative would be left in the water fund for three years before it was paid back. The rates were phased in: the first increase was \$3.50 in January 2006; the second increase is scheduled for July 2006, increasing it to \$7; and the third in July 2007, which will increase the rate to \$10.50. Additionally, there is a Consumer Price Index (CPI) increase, which will go into affect on July 1.

Other factors considered in the rate increase included limited revenue and lack of reserves in other funds. One of the fundamental assumptions in the rate increase was that the general fund not be used to support the water enterprise. The Council directed staff to account for the PCE costs in a separate sub-fund of the water fund and to maintain a minimum 15% reserve level.

Under capital assumptions in the water fund, capital maintenance is for infrastructure replacement, which is illustrated separately on the utility bill. Staff is attempting to increase that back to the level that had been anticipated when the rate increase was approved. Council was adamant that the rates be reinvested in the infrastructure in the older part of the community, which had suffered during the funding of the litigation; however, it could not be done all at once. There is an allowance for equipment replacement, as well as for water meters. The assumption was that the City would bear some costs in upgrading the services, but the customers would pay for the meters. Staff will be returning to Council with a presentation on how this will be accomplished, but the long-range financial planning included \$184,000 in the current fiscal year for the pilot program and \$600,000 in future years.

In response to Mayor Pro Tempore Johnson, Mr. Prima stated that the cost includes digging up the service, putting in the box, re-plumbing it, and preparing it for a meter. New development is paying for the cost of the meter. It would be simpler to only install water meters in homes that have already been plumbed for it and have paid for it; however, the City is required to plan for the entire community due to the state mandate. The total cost of the program went into the water fund, which is part of the \$12 million deficit, and the utility needs to come up with the cash to put in the meters.

Council Member Hansen added that one of the consequences of the water rates being rescinded is the impact it will have on the City's ability to install the meters. During the water rate protests, the Council heard complaints about the unfairness of the bedroom system for establishing water rates, and many people stated that having a meter would be a more accurate reflection of the cost based on their water usage.

Mr. Prima stated that, without the rate increase, the water fund in 2005 begins with a zero balance. Based on potential settlements, the fund would show a gain in 2006 and 2007 and then a decrease into the negative in 2008; therefore, the overall water fund would be negative and would require support from the general fund. With the rate increase, the water fund would increase in 2006 and 2007, and in 2008 the fund would remain positive and then continue to climb in 2009 and 2010, at which time it is anticipated the legal issues would be settled and the cleanup underway. The City would be in a positive position to estimate the long-term costs and determine the future plan for the \$10.50 increase (i.e. reduce it over time, make a large cut, etc.).

Mr. Prima outlined the breakdown of the water fund, which includes the operating fund, capital maintenance, the negative sub-fund for PCE/TCE, and the PCE/TCE cleanup fund. The negative sub-fund for the first three years remains flat due to the fact that expenses are being charged to the new PCE/TCE fund, and in 2008 the fund begins to be repaid, continuing over the next 15 years. The operating fund shows a healthy fund balance of \$6 million and the capital fund shows a \$3 million cash balance; however, when it is offset with the negative \$12 million and the PCE/TCE cleanup fund, it decreases the total balance of the water fund to zero.

Council Member Hansen questioned what the consequences would be of not paying back the \$12 million debt, to which Mr. Prima responded that it would wipe out the City's debt to itself; however, it would also decrease all of the other funds to zero to make up the deficit. Mr. Hansen pointed out that if the water rates are rescinded in November, it could result in the water meter program being delayed, infrastructure not being replaced, and the utility operating with very few capital dollars.

Council Member Mounce questioned if there were legal ramifications of not paying back the deficit and not continuing with sewer and water replacement when the City has been charging its customers each month for that service, to which City Attorney Schwabauer responded that there is no case law or statutory requirement that, if the rates are raised for infrastructure replacement, it cannot be spent on litigation. Ms. Mounce countered that the City misled the citizens, because they were informed that the rates would be raised for a specific purpose, and it was ultimately applied toward something else.

Mr. Schwabauer stated that, when the money was raised, it was intended to be spent on the infrastructure replacement program, which is still the intention.

Mayor Hitchcock added that the rates were raised in order to preserve the money that was to go toward infrastructure so that it would be used for the purpose for which it was intended.

Council Member Mounce stated that, when the City needed money, it borrowed it from the water fund. If the water rates are rescinded, the City could decide not to repay the fund. There should be a provision to prevent the City from utilizing funds for reasons other than the intended purpose.

Council Member Hansen emphasized that the City borrowed money from those funds because the rates were not increased and there was no alternative. He clarified that he is not advocating that the City write off the deficit, but is instead demonstrating the potential consequences to the water rates being rescinded.

City Manager King stated that the money provided a short-term solution without raising rates to advance PCE/TCE costs. Had the money not been available, Council would have been presented with the options of either taking the money out of the general fund or raising the rates. When the fund reached zero, there was no money in the infrastructure replacement sub-fund or within the water or sewer funds, and Council determined it would need to raise the rates. If the rate increase is not sustained, the options would be to continue to absorb 100% of the infrastructure replacement amount or use the general fund, which would result in a significant impact on the City.

Mayor Hitchcock stated that, when she initially asked about the impacts of the water rates being rescinded, her intention was not to revisit the water fund or change the Council's decision. If this measure passes, the City will be forced to refund the citizens what it has collected over the span of a year, and she asked what the impacts would be on the general fund.

City Manager King stated that this would be a Council policy decision. With the modified pay as you go approach, it would equate to \$3 million, and there are various options to consider. The City could make reductions across the board, which would represent a 7% reduction in each department, or it could identify specific departments or programs that would absorb the majority of the increase, which would eliminate particular services or programs. If the City were to grow itself out, it would need \$300 million in sales tax in order to receive \$3 million of revenue, which would mean the City would have to grow its retail tax base by one third. The amount of property tax needed would be double the amount of housing units currently in the city. Another option suggested by some is the elimination of waste, and the City has been more aggressive in dealing with employee disciplines and in trying to get a more productive workforce.

Mr. King outlined the following possibilities for reductions (i.e. both for targeted services and for across the board reductions):

Parks and Recreation Department

- Eliminate the parks component, which would cease all maintenance of parks.
- Eliminate the recreation component, and the City could realize \$500,000 to \$800,000 in cost savings; however, there would be no recreational activities.

Hutchins Street Square

- Eliminate the entire department; however, the City would not realize the same level of savings.
- Eliminate the arts grants, Greater Lodi Area Youth Commission, and the First Friday Art Hops.

Public Works Department

- Eliminate eight positions, including facility services and engineering inspections.
- Eliminate services and programs such as graffiti abatement, downtown clean up, and landscape and maintenance along the rights of way.
- Reduce the street sweeping program by 50%.

Fire Department

- Eliminate one fire station.

Police Department

- Eliminate downtown bicycle patrol, which would equal two police officers.
- Significantly reduce the traffic unit, which presently employs three police officers and one sergeant.
- Eliminate the school resource officers or request the school district pay those costs.
- Reduce the special investigations unit.

Library

- Reduce library hours from 64 to 53.
- Close the library on Sundays and on Thursday evenings and be open only four hours on Saturdays.
- Eliminate programs such as the toddlers reading time, book club, and teen program.
- Reduce the library collection by 10%.

Mr. King pointed out that across the board cuts will severely impact the larger departments, such as police and fire. If Council chose to cut department by department, the larger departments would remain generally intact, but it would be the quality of life departments that would take severe reductions or eliminations. Even programs that are fee supported would be impacted as they are not 100% fee supported.

In response to Mayor Pro Tempore Johnson, Mr. King agreed that these are real possibilities. There is no budget surplus in the water, sewer, electric, or general funds to help mitigate the cuts.

Council Member Hansen indicated that some of the consequences outlined by the City Manager would not disturb those who do not utilize the library, Hutchins Street Square, or Parks and Recreation programs; whereas, other segments of the community would be extremely upset. In response to Mr. King's comment regarding the option to outgrow the problem, the chance of that becoming a reality is slim due to the continually increasing cost of doing business, which has an impact on the growth process.

Mayor Pro Tempore Johnson added that the opportunity for growth becomes less attractive the further the City falls behind in its ability to provide a healthy, appealing community.

Mayor Hitchcock requested that staff provide a breakdown of the \$8 million for litigation, settlements, and state oversight, to which Mr. Prima responded that the information would be provided to Council in a closed session meeting. She further stated that her expectation is for staff to present its best recommendation as "Plan B" should the rates be rescinded and allow Council to discuss the consequences and take action.

Council Member Beckman questioned how detailed she wanted the plan to be, to which Mayor Hitchcock stated that it could be very similar to the list that Mr. King provided today.

Mr. Beckman stated that he would prefer to see general recommendations for reductions and did not want staff to make decisions that Council will have to make or to prepare a second budget.

Mayor Hitchcock suggested that the City Manager present two general plans: one that cuts across the board and one that eliminates all but public safety.

Council Member Hansen stated that, if the water rates are rescinded, these issues will be dealt with in early 2007, at which time there could be three new Members on the Council with a new philosophy and approach. He believed that it would be premature to go through this in detail now and that the list presented by City Manager King provides a general articulation of what the impacts would be.

Mayor Pro Tempore Johnson expressed his opinion that the information presented today was acceptable for the present time.

Mayor Hitchcock stated that she would like to answer citizen inquiries on the water rate reduction measure using prepared information, to which Mr. King responded that he would compose a list of the various options.

PUBLIC COMMENTS:

- Felix Huerta, business agent for the American Federation of State, County, and Municipal Employees, suggested that the information regarding legal and state oversight expenses were public information and perhaps should not be presented in closed session. He further questioned the percentage amount of the CPI and the capital assumption of 2.4% and why there were two different cost factors.

In regard to the expense information, City Attorney Schwabauer responded that some of the expenses are public information; however, the expense figure of \$45 million includes the budgeted amount for expected future settlements. While the City can disclose past settlement figures, it does not disclose how much money has been budgeted to settle future settlements, which would alert negotiating parties and subsequently encourage the highest possible settlement.

Public Works Director Prima stated that the resolution adopted by Council regarding the water and sewer rates called for future increases to match the CPI, at whatever the amount is at the time. The capital percentage assumption of 2.4% is used for long-range planning projections.

B-2 Continued presentation of the fiscal year 2006-07 recommended draft budget (CM)

City Manager King requested that the City Council take a straw poll on where it stands on the various budget deviations raised by Council Members, which would assist staff in making the necessary modifications to the budget prior to adoption.

Mr. Krueger reported that the draft budget included the contribution to the Lodi Conference and Visitors Bureau (LCVB) in the amount of \$94,100. The request from LCVB was for a gradual reduction of \$15,000 per year over the next three years, which would ultimately bring its contribution to \$78,500 in three years.

Mayor Hitchcock expressed her discomfort with the request for direction as it went beyond the scope of a Shirtsleeve Session, which was designed for Council to receive information only. She requested that the City Attorney advise the Council on this issue.

City Attorney Schwabauer responded that developing collective concurrence is not the purpose of a Shirtsleeve Session and that it should instead be advertised as a special meeting.

City Manager King stated that his perspective is that the Shirtsleeve Session is posted as a regular meeting pursuant to the Brown Act 72 hours in advance and the public is capable of determining that an issue of importance is to be discussed. Council is not being asked to make binding decisions. The Lodi Municipal Code is confusing as it states the meeting is informal; however, there is no state code that defines an informal meeting. He suggested that Council address the purpose of Shirtsleeve Sessions in the near future.

Council Member Beckman stated that he viewed the Shirtsleeve Sessions as an opportunity for staff and Council to dialog but not take formal action.

Council Member Hansen agreed with Mr. Beckman's perspective. In regard to the LCVB funding level, he believed that the proposal by LCVB was reasonable and he was comfortable with the recommended \$15,000 reduction over a longer period of time. In regard to graffiti abatement, police, and fire, he agreed with the staff recommendations.

Mr. Krueger clarified that the LCVB amount would be \$108,500 and he would make the necessary adjustments. In order to accurately reflect the number of positions in the police and fire departments, the amount that was anticipated to be transferred to the vehicle replacement fund would be reduced in order to accomplish those adjustments.

Council Member Hansen requested clarification whether this adjustment was in regard to the 78th position in the Police Department. The Police Chief believed he had an opportunity to receive 100% grant funding for that position, and Mr. Hansen was satisfied with the Chief's recommendation.

Mr. King replied in the affirmative and stated that the error in the draft would be corrected in the final budget to show 77 positions. Should the Police Chief obtain 100% grant funding for a 78th officer, staff would proceed with filling that position.

Mr. Krueger stated that, in the case of the Fire Department, his analysis determined there was an opportunity to reduce the salary amounts; however, that was not an appropriate assumption. The difference will be corrected in the resolution presented to Council at final adoption of the budget.

Council Member Mounce expressed support for keeping the graffiti abatement level at 50% in order to keep the service at the current level.

Mr. Prima stated that he and Community Development Director Hatch have initiated discussions on whether there is a better method of delivering the service and will return to Council with alternatives.

City Manager King stated that Council has the option to add additional funds in the budget for the service or it could trade out the economic development position and use that money to fund the service. Another alternative to consider is using Community Development Block Grant (CDBG) funding for graffiti abatement; however, doing so would shift CDBG money away from brick and mortar type projects.

PUBLIC COMMENTS:

- Myrna Wetzel commented that the problems with graffiti are not limited to the east side. She questioned if there were liability issues associated with using volunteers to assist in the abatement.

City Manager King stated that it is preferred that graffiti abatement services remain with the public entity and not be handled by volunteers.

Council Member Hansen expressed support for maintaining the graffiti abatement level at 50%, to which Mr. Krueger clarified that restoring the 10% would cost \$60,000 versus \$48,000.

Mayor Hitchcock reiterated her discomfort with this discussion and suggested that, if Council prefers the meetings to be for consensus and decision making, they should be conducted at a time that allows for public participation.

Continued June 20, 2006

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:30 a.m.

ATTEST:

Jennifer M. Perrin
Interim City Clerk



**CITY OF LODI
COUNCIL COMMUNICATION**

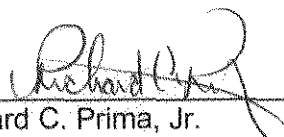
AGENDA TITLE: Background Information Regarding PCE/TCE Water Rate Increase
MEETING DATE: June 20, 2006 (Shirtsleeve Session)
PREPARED BY: Public Works Director

RECOMMENDED ACTION: That the City Council receive and discuss background information regarding the PCE/TCE water rate increase.

BACKGROUND INFORMATION: City staff will review with the Council the various assumptions and policy direction that were used in arriving at the amount of the PCE/TCE water rate increase. Confirming or modifying these assumptions and direction is the first step in determining alternate courses of action if the rate increase is rescinded.

FISCAL IMPACT: Not applicable.

FUNDING AVAILABLE: Not applicable.


Richard C. Prima, Jr.
Public Works Director

RCP/pmf

cc: Steve Schwabauer, City Attorney

APPROVED:


Blair King, City Manager

City of Lodi

Funding of PCE/TCE Groundwater Remediation



Review of Assumptions & Policy Direction – June 20, 2006

City of Lodi Staff





All-In Costs of PCE/TCE

- Net cost of implementing remediation plan is estimated to be \$45.7 million and includes capital, operating, and legal expenses, and settlements due to other parties less settlement revenues due to the City
- Above costs include pay back of past expenses (total \$12.2 million, which includes \$1.9 million of expenses owed to the sewer utility)



PCE/TCE DECISION TREE

3

Can clean up costs be avoided? Is doing nothing an option? Are there other Public Agencies with jurisdiction or expertise that are better suited to perform the work at no cost to Lodi?

NO

Are there grants?

NO

Can others pay?
(Explored to the maximum extent feasible)

NO

YES — Can the City Pay the Clean Up Costs with Existing Funds? — NO

What are the impacts to services and future costs?

The City budget was cut this year already. 29 positions are vacant, including 8 police and fire positions. The General Fund is \$5 million short from where it should be. It will cost an additional \$3 million a year to clean up PCE/TCE and lead to the elimination or reductions in programs and services the City is now paying for – such as water and sewer pipe replacement programs, services for library, parks, police and fire, etc.

If the City cannot pay, where should the money come from? – water, sewer, combination (water)

Should the money be borrowed?

Pure pay-as-you-go? — NO

YES

More expensive due to interest and fees.

Modified pay-as-you-go?

Is this the most gradual rate increase possible? (yes)



What are the impacts to services and future costs?

Absorbing PCE/TCE clean up costs in the General Fund would require a 7% reduction in current General Fund programs and services (library, parks, police and fire, etc.)





Rate Increase Alternatives

- Three rate alternatives were considered:
 - Pure rate funding on a pay-as-you-go annual basis
 - Modified smooth pay-as-you-go, use of cash and reserve from rate increases
 - Long-term financing, use of cash from rate increases plus revenue bonds
- BWA recommends the modified pay-as-you-go alternative
 - Minimizes long-term costs
 - Minimizes annual rate increases
 - Provides predictable rates





Recommended Alternative

- Use cash from settlements and rate increases (no borrowing)
- Re-pay accrued expenses
- Increases are phased-in
- Rates for 3-bedroom home
 - January 1, 2006 add \$3.50 (\$30.33/month)
 - July 1, 2006 add \$3.50 (\$33.83/month)
 - July 1, 2007 add \$3.50 (\$37.33/month)
 - Adjustment each July 1 to account for changes in Consumer Price Index



What is the Clean up?

- Groundwater Extraction – pumping groundwater containing PCE and removing from the water with carbon or other methods; water is then suitable for domestic use
- Ongoing monitoring and reporting
- SVE/Sparge could run for five years
- GW extraction will take 30+/- years



Other Factors in Recommended Rate Increase

- Limited General Fund revenue and lack of reserves means it cannot support the Water Enterprise
- Account for PCE costs in separate “sub-fund”
- Maintain combined *minimum* 15% reserve in operating, capital and cleanup funds (should be higher)



Summary of Total PCE/TCE Costs

Projected Cost (Current Dollars)	Amount
Plume Remediation (5 plumes):	\$ 41,700,000
Cash Deficit:	\$12,214,000
Legal, State Oversight, Settlements In/Out (Net):	<u><\$8,125,000></u>
Net Overall Cost:	\$ 45,789,000



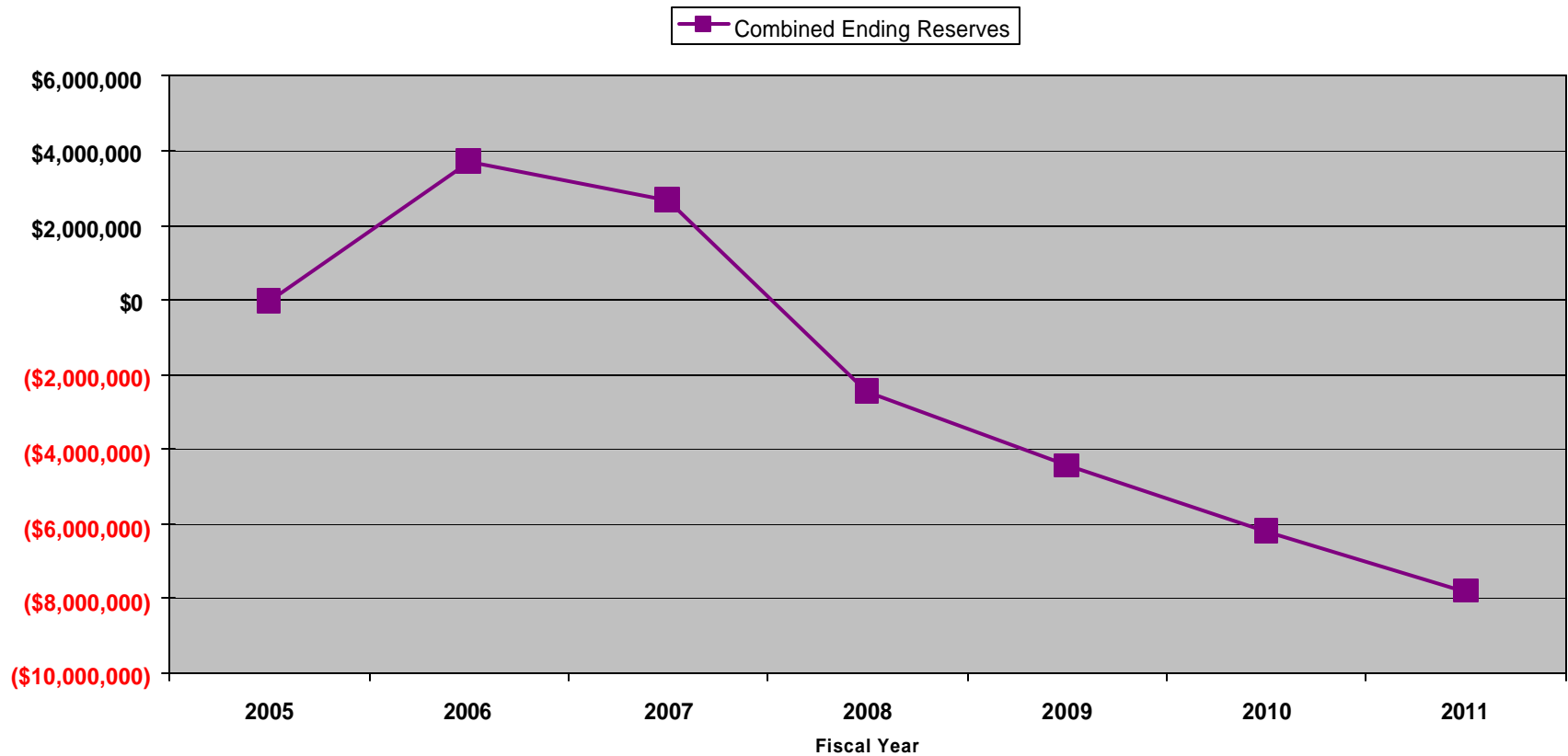
Capital Assumptions

Water (Cost escalator is 2.40% annually)

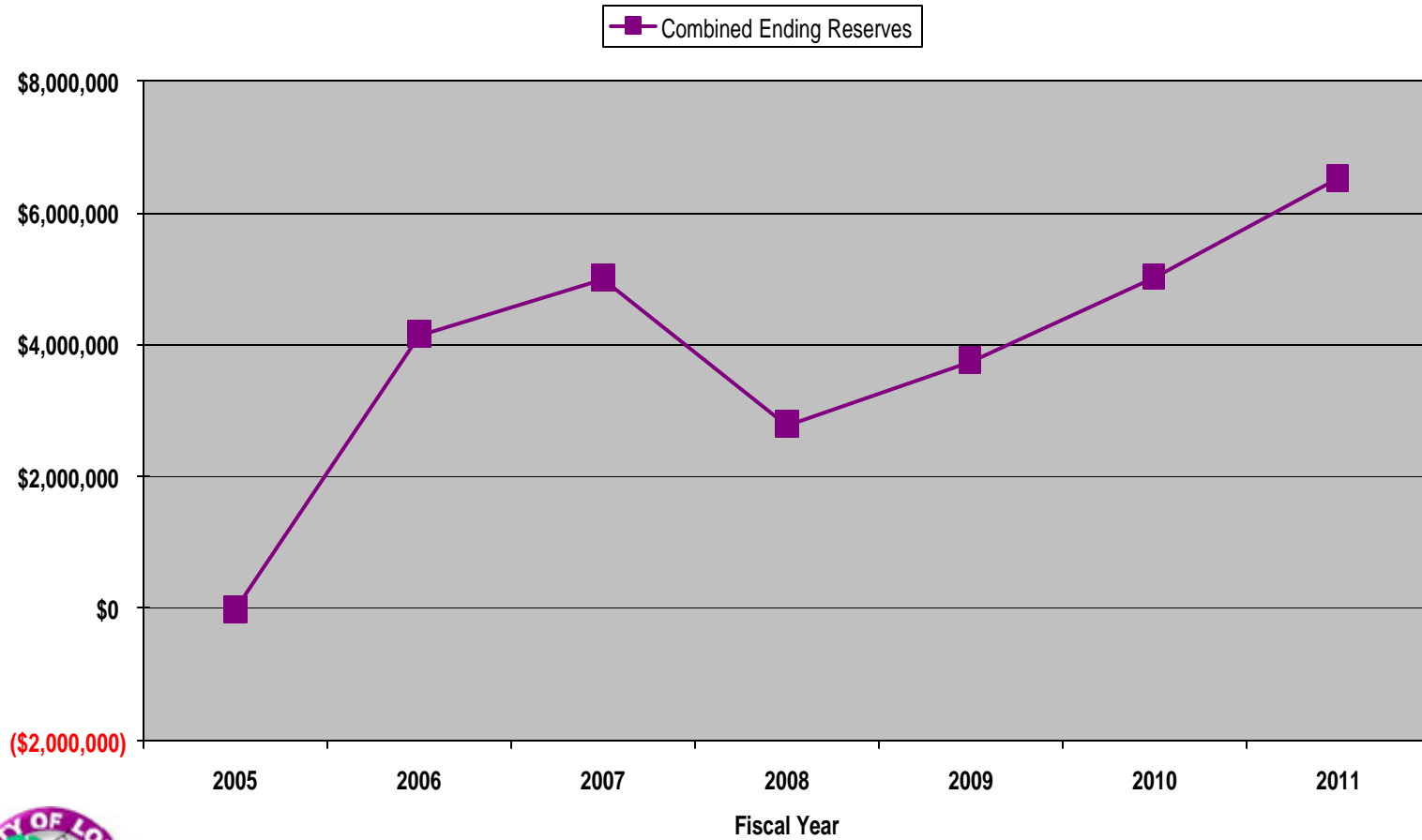
	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10
Capital Maintenance & Replacement	\$ 439,000	\$ 1,153,000	\$ 2,362,000	\$ 2,419,000	\$ 2,477,000
Equipment Replacements	18,000	107,000	110,000	112,000	115,000
Water Meter Retrofit Program	184,000	608,000	623,000	638,000	653,000
Capital Expansion (non-impact fee portion)	<u>415,000</u>	<u>244,000</u>	<u>268,000</u>	<u>275,000</u>	<u>281,000</u>
Total:	\$ 1,056,000	\$ 2,112,000	\$ 3,363,000	\$ 3,444,000	\$ 3,526,000



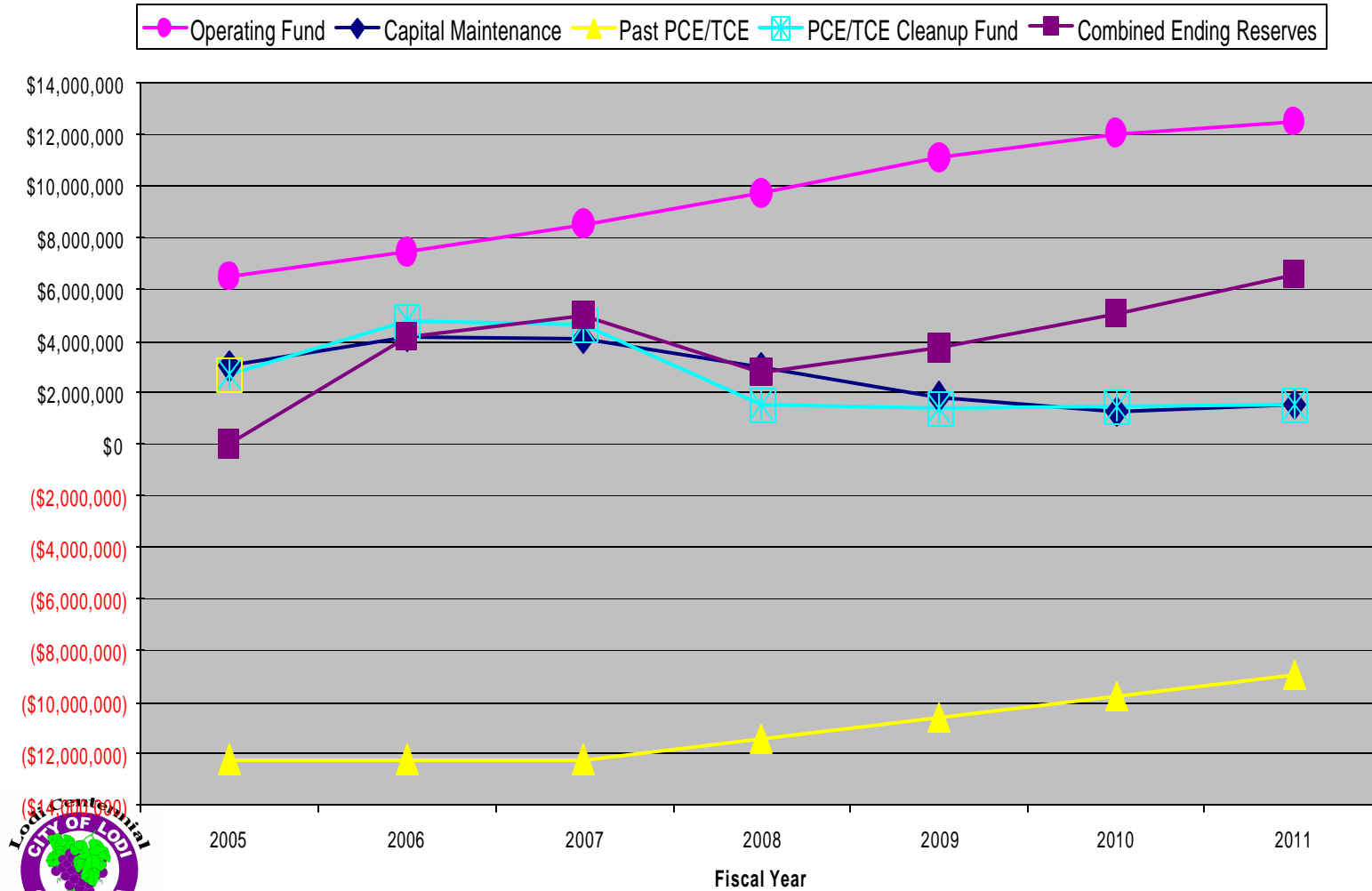
**Water Fund Balances
Without Rate Increase**



Water Fund Balances With Rate Increase



Water Fund Balances With Rate Increase



Summary of Assumptions

- No General Fund Impact
- Pay all costs (net of settlements) including past expenses
- Pay past expenses over 15 years, starting in year 3 of program
- Pay out of water fund, not sewer fund
- Maintain reserve in water fund
- Maintain water capital program, with allowance for water meters
- Modified “pay as you go” approach





**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: 2006-07 Budget Discussion

MEETING DATE: June 20, 2006 (Shirtsleeve Session)

PREPARED BY: Deputy City Manager

RECOMMENDED ACTION: That City Council have the opportunity to ask additional questions or for additional information from City Staff relative to the 2006-07 Budget.

BACKGROUND INFORMATION: City staff will review with the Council various items for which comments have been received in the meetings held on May 31, 2006 and June 7, 2006. Staff will also be prepared to respond to any additional questions Council may have prior to the passage of the budget at the regular Council meeting to be held on June 21, 2006.

FISCAL IMPACT: Not applicable

FUNDING AVAILABLE: Not applicable


James R. Krueger, Deputy City Manager

APPROVED: 
Blair King, City Manager